

What the Glorious Revolution really tells us about Economic Institutions?

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AFIT Prize Competition, 2014

### Abstract

This paper critically examines the relative merits of New Institutional Economics (NIE, hereafter) versus the “critical institutionalist” method of institutional analysis. I sketch how the Glorious Revolution, a seminal event in British economic and political history, has been analyzed by NIE. I argue that the examination, in general, and that of the Glorious Revolution, in particular, shows a considerable amount of theoretical weakness. Instead, I use the critical institutionalist method (Tauheed, 2013), to present a comprehensive institutional analysis of the Glorious Revolution. I forward the changing nature of resource distribution and culture in Britain as key variables. I also highlight the role of the “Whigs” as key agents in bringing about the necessary events of the Glorious Revolution.

*Keywords:* new institutional economics, the Glorious Revolution, critical institutionalist technique

What the Glorious Revolution really tells us about Economic Institutions?<sup>1</sup>

At least for the last two decades, the field of economic development has been dominated by New Institutional Economics (NIE, hereafter). A majority of economic development research and policy proposals start with the works of Douglass North and end with those by Daron Acemoglu or Dani Rodrik. NIE scholars make a case for considering “institutions”—conceived narrowly as “rules of the game”—as a veritable panacea for all the economic problems of the developing world. However, the absence of institutional convergence, the persistence of dysfunctional institutions and the lack of contextual analysis for developing countries behoove us to critically examine NIE’s efficacy as a relevant paradigm for institutional analysis.

Specifically, “credible commitments,” a term first popularized by two NIE scholars, Douglass North and Barry Weingast (1989), has probably been one of the more widely used terms in economics, as well as in political science. In a recent book, the seminal importance of credible commitments is highlighted with the following words:

“A search of *EconLit*, an electronic bibliography of economics articles, brings up 1,932 hits for the phrase in texts published between 1976 and 2012. Of these 1,894 occur after the publication of North and Weingast’s classic 1989 article “Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England.” (Coffman, Leonard & Neal, 2013, p.1)

This paper critically examines the relative merits of NIE versus the critical institutionalist method. In the first section of this paper, I sketch how the Glorious Revolution, a seminal event in English (later, British) economic and political history, has been analyzed by the NIE. I will show that the examination, in general, and that of the

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<sup>1</sup>The author is grateful to Professor John F. Henry for helpful comments and suggestions.

Glorious Revolution, in particular, depicts a considerable amount of theoretical weakness, especially with respect to the omission of key explanatory variables like distributional conflicts. In the next section, I will use the the critical institutionalist method (Tauheed, 2013), to present a comprehensive institutional analysis of the Glorious Revolution. In the argument forwarded in this paper, the changing nature of resource distribution and culture in Britain are pointed out as key variables. At the same time, the role of the “Whigs” as key agents is also underscored in bringing about the necessary events that came to be associated with the Glorious Revolution.

## **Section I**

### **Background**

Douglass North and Barry Weingast (1989) make a case for the singular importance of the Glorious Revolution in England in terms of setting England on the course towards economic growth and prosperity. According to the authors, before the Glorious Revolution of 1688-89, the fundamental problem in England was the monarchy itself. In the absence of statutory taxation, the monarchy was unable to “credibly commit” itself toward protecting the property rights of English subjects. The monarch was free to impose taxation and take away the subjects’ gains without prior notice. As a result of this persistent uncertainty, the system of incentives was stacked against economic growth.

With the Crown passing from the house of Tudor (1485-1603) to the Stuart Kings in 1603, fiscal problems facing the monarchy hit a crescendo. Throughout the seventeenth century, royal expenditures consistently outpaced annual revenues, thus forcing monarchs to continually collect “forced loans” and to grant “monopolies.” One of the main reasons for royal expenditures outpacing revenues had to do with the increasing cost of warfare in the seventeenth century. Ships, in particular, were “...getting larger, canon heavier; fire-arms

becoming essential for rank and file of an army...War was becoming a financial disaster” (Hill, 1982, p.39).

Where the search for alternative sources of funds by the monarchy was resulting in ever-increasing tension with the Parliament, the nature of political institutions before the Glorious Revolution was rigged in favor of the monarchy: First, monarchs enforced their executive will by issuing royal proclamations and royal ordinances. The monarchs were thus able to by-pass the English Parliament, which had demanded a stop to arbitrary taxation in order to secure private property rights. Second, the monarchs also used the Star Chamber, a supra-Parliamentary institution that combined legislative, executive and judicial powers to enforce their will as the institution had come to have the final say in matters of prerogative. Last, the monarchs were also able to extract the necessary revenues through controlling the judiciary. Monarchs paid judges directly as long as judges served them through passing favorable verdicts. At the same time, the monarchs came down hard against those judges who exhibited any kind of independence. For instance, Chief Justice Coke (1616/17) and Chief Justice Crew (1627) were fired for defying the monarchy’s wishes. Over a period of time, monarchs’ carrot and stick strategy produced a pliant bench, which largely supported the monarchy.

### **Before the Revolution: 1640–88:**

The period prior to the Glorious Revolution has also been described as “revolutionary” (Hill, 1972). It can well be argued that the Glorious Revolution was the final chapter of the revolutionary saga that began circa 1640. Around that time, property-holding men, represented by the Parliament, initiated their violent struggle against arbitrary taxation. With the Glorious Revolution, these property-holding men finally succeeded in establishing

secure property rights and thus enabling *laissez-faire* to triumph over regulation. In other words:

“...[property-holding men] established the sacred rights of property (abolition of feudal tenures, no arbitrary taxation), gave political power to the propertied (sovereignty of Parliament and common law, abolition of prerogative courts), and removed all impediments to the triumph of the ideology of the men of property—the protestant ethic.” (Hill, 1972, p.12)

However, there were many unsuccessful attempts at resisting the march of *laissez-faire* by “common” or property-less men. Among the notables were the Levellers and the Diggers. The Levellers actively and violently opposed “enclosures,” demanded extension of voting privileges for the property-less as well as equality in property ownership. Diggers, led by Gerrard Winstanley, believed in communal property rights and advocated a “...communist programme and began communal cultivation of land at St. George’s Hill near London in 1649” (Hill, 1982, p.111).

### **The Revolution**

During the Glorious Revolution (1688-89), King James II of England was defeated by a coalition of Parliamentary forces and William III of Orange-Nassau and his wife Mary II became joint monarchs. This Glorious Revolution led to significant recalibration in the institutional makeup: First, the fiscal system, a source of perennial tension between the monarch and the Parliament, was revamped to allow for the regular practice of earmarking new taxes in order to service the interest on all new long-term loans. Second, by doing away with the Star Chamber, Parliament severely limited the monarchy’s legislative and judicial powers. Third, the Parliament asserted its dominance with respect to removing the monarchy’s ability to raise taxes unilaterally. Fourth, the Parliament instituted a permanent

oversight role for itself by beginning to monitor the expenditure undertaken by the monarchs. Last, by creating a balance of power between itself and the monarchy, rather than doing away with the monarchy, the Parliament created a check against its own potential excesses.

Through this institutional recalibration, the English government, the NIE story goes, was finally able to convince the people that the government would not engage in arbitrary taxation. That is to say that the English government's commitment for respecting property rights was accepted as credible by the English people. Finally, the system of incentives was properly aligned to kick start the process of economic growth, thus placing England on the course to economic development and prosperity as is evidenced by the exponential increase in the private capital markets.<sup>2</sup>

### **The Role of Institutions in NIE**

The institutional analysis presented in North and Weingast (1989) is one of the many iterations of NIE's conceptualization of institutions as the "rules of the game." In a political context—as in the Glorious Revolution—the authors argue, political institutions and the constitution of a state play a determinative role with respect to what course a state takes in terms of economic development. According to the authors, the most important question is whether:

...the state produces rules and regulations that benefit a small elite and so provide little prospect for long-run growth, or whether it produces rules that foster long-term growth. Put simply, successful long-run economic performance requires appropriate incentives not only for economic actor but for political actors as well. (pp .805—806)

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<sup>2</sup>North and Weingast (1989) present the following as evidence in support of the growth in private capital markets after the Glorious Revolution (pp.825—828): i) Falling private rates of interest ii) Large-scale trading in private securities iii) Growth in banking iv) Growth in Bank of England's private activities: a) discounted bills b) Notes in circulation c) Increase in the number of accounts (drawing accounts).

The authors point out that even if crafty institutional design ensures agreement between a monarch (state) and his subjects (citizens) regarding how much revenue (surplus) may be extracted, compliance with such agreements ex-post, can never be guaranteed. However, if potential ex-post problems can be correctly anticipated ex-ante, then various incentives or disincentives can be made part of the process of institutional design thus “...devising institutions or constitutions that promote compliance with bargains after the fact” (North and Weingast, 1989, p.806). For this reason, North and Weingast (1989) propose that one of the characteristics of institutional design must be the ability of producing “self-enforcing agreements,” which is simply to say “...major parties to the bargain must have an incentive to abide by the bargain after it is made” (p.806).

The authors conclude that appropriately designed institutions are important for two chief reasons: First, appropriately designed institutions improve the workings of a political system by acting as constraints in situations where other non-institutional constraints fail to deter one of the agents from renegeing on agreements. Second, these appropriately designed institutions, according to authors, are also essential for economic growth. Absence of credible commitments leads to tremendous uncertainty and thus militates against economic growth by dissuading would-be entrepreneurs and investors. The authors go on to make a case for *laissez-faire* and private property rights. Specifically:

“Our view also implies that development of free markets must be accompanied by some credible restrictions on the state’s ability manipulate economic rules to the advantage of itself and its constituents. Successful economic performance, therefore, must be accompanied by institutions that limit economic intervention and allow private rights and markets to prevail in large segments of the economy. Put another way, because constitutional restrictions must be self-enforcing, they must serve to establish a credible commitment by the state to abide by them. Absolutist states which faced no such constraint, such as early modern Spain, created economic conditions that retarded long-run economic growth.” (p.808)

### **The Paucity of NIE Institutional Analysis**

Despite the many permutations of institutions, NIE intellectuals end up granting pride of place to secure property rights. For instance, North and Weingast (1989) make a case for the state to credibly commit against arbitrary taxation. The authors conclude that secure property rights provide the best protection against potential predation by the state. However, there are a number of problems with this line of reasoning: First, the assertion in NIE that getting secure property rights will create an auspicious environment misses the larger point that people, at times, may require completely different type of property rights (Bardhan, 2006). In a sense, the attractiveness of any institutional incentives often varies with people’s differing socio-economic status. NIE’s promotion of secure property rights as the “right” institutions misses the reality of life in many developing countries, where people require completely different type of property rights. In this way, NIE is guilty of painting a picture with broad strokes that appears reductive, at best, and downright Western-centric, at worst.

Second, another omission in the NIE literature is the absence of any recognition of whether the prescribed solution for economic development is just, fair or equitable. Usually,

providing secure property rights for one group of people entails dispossessing another group of its traditional rights of usage. For instance, in the Enclosure movement, which was at its peak from 1760-1830, landowners fenced in commonly farmed land. These enclosures pushed hundreds of thousands of rural dwellers towards urban centers in search of sustenance constituting a major social upheaval in Britain. Karl Polanyi (1944) captured this upheaval in the following words:

“Enclosures have appropriately been called the revolution of the rich against the poor. The lords and nobles were upsetting the social order, breaking down ancient law and custom, sometimes by means of violence, often by pressure and intimidation. They were literally robbing the poor of their share in the common...the fabric of society was being disrupted...turning [people] from decent husbandmen into a mob of beggars and thieves.”  
(p.35)

Third, another problem with NIE is the way in which the promotion of secure property rights has come to be associated with unfettered markets—to the detriment of a strong state. There are two main issues that follow with such promotion. The first issue has to do with the fact that providing secure property rights is simply not possible unless a state or an organization within a society can monopolize the use of violence. It goes without saying that the preceding idea is an extension of the Weberian conception of the state. For unless the capacity to undertake violence can be monopolized, un-ending violence between warring factions, clans or tribes would ensure that not even the idea of secure property rights exists. What may belong to one clan today might end up belonging to another faction tomorrow. In a sense, then, the very solution to the problem of economic growth and social order, that is, the provision of secure property rights is itself dependent on the pre-existence of a state and hence some necessary market regulation. In this way, NIE, when it promotes unfettered markets as an institutional solution—to the detriment of a strong state—, is guilty of ignoring

the very scaffolding (regulated, not unfettered, markets) without which the grand tower of secure property rights cannot stand.

The second issue has to do with the plethora of evidence that points in the opposite direction as opposed to what we are being told by the NIE. Even if we accept markets as coordination mechanisms, the efficacy of the state as a superb coordination mechanism cannot be ignored. The East Asian state, for instance, played a significant coordinating role in setting the region on the path towards economic development. The East Asian state intervened in the capital markets to regulate credit allocation to designated “winners”, promoted industrial investment, underwrote risks and guaranteed loans and established public development banks, to name a few instances (Amsden, 1989).

### **Looking for a Theory of Institutional Change in NIE**

The biggest gap in the NIE literature on institutions is an incomplete theory of institutional change. The story of the Glorious Revolution, as told to us by North and Weingast (1989), simply states that new institutional arrangements arise when certain principals realize the institutions’ importance and hence decide to play by the new “rules of the game.” For instance, after William and Mary became joint monarchs of Britain, they just “realized” that violent and frequent expropriation of surplus from the citizenry was counter-productive and thus they agreed to play by the rules and provide secure property rights.

If getting the right institutions is a matter of realization, it naturally begs the question as to why dysfunctional institutions even exist? Institutional re-calibration should have automatically occurred in the favor of Anglo-Saxon-type property rights by now in almost all human societies as the re-calibration, *ala* NIE, is a function of the “realization” regarding the efficacy of secure property rights. In other words, we should have witnessed a greater level of

convergence between local institutions and those that belong to the Anglo-Saxon private property rights tradition. It goes without saying that reality is not so.<sup>3</sup>

The real reason why we do not see convergence in the institutions of property rights around the world has to do with the fact that the NIE theory of institutional change does not take two very important variables—vested interests and collective action—into account. Dysfunctional institutions, therefore, not only exist but seem to be even getting stronger in certain societies.

The first omitted variable is vested interests or the distributive conflicts and asymmetries in bargaining and mobilizing power among various social groups, especially in poor countries. Acemoglu and Robinson (2006) have shown that, at times, it may *not* be in the interest of a dictator to carry out institutional changes that safeguard property rights or contract enforcement—institutional arrangements that improve overall economic performance—because such institutional changes carry the potential for “...upsetting the current arrangement for the uncertain prospect of share in a larger pie” (Bardhan, 2006, p. 20).

Perhaps, the most convincing explanation for sticky dysfunctional institutions pertains to distributive struggles in the historical evolution of land rights in developing countries. According to Bardhan (2006), empirical evidence from most developing countries suggests that large land holdings are not economically efficient. If we are to give any credence to the NIE theory of institutional change, then the landholders in developing countries would have had their “eureka” moments by now and they would have parceled out their large land holdings to small farmers in order to grab the surplus generated due to this efficient reallocation. As a matter of fact, the direction of land sales is often in the opposite

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<sup>3</sup> Knight (1992), argues that NIE attempts at defining institutions are just “functionalist musings,” as Knight rejects any attempt at defining institutions in terms of efficiency or any other beneficial outcomes. In Knight’s view, institutions are the outcomes of different social conflicts that often involve players with different levels of bargaining power.

(inefficient) direction, i.e. from small landholders towards large landholders and moneylenders.

Distributive struggles manifested through asset-ownership inequality (rich v. poor) results in the perpetuation of dysfunctional institutions due to two main reasons. The first reason is economic in the sense that due to low household savings and imperfect credit markets, the potentially more efficient small farmer is not able to afford the going market price of the land. At the same time, since the capitalized value of the land is often more than the agriculture income streams, it prevents the more productive small farmer from owning more land because most of the land they cultivate does not belong to them—lack of tenancy rights prevents the small farmer from using the land as collateral in order to obtain loans for purchase.

The second reason for the perpetuation of dysfunctional institutions owing to distributional conflicts has to do with political reasons. In this case the large landholders resist reallocation of land that they know is inefficient due to the fact that the leveling impact of redistribution reduces their social and political power as well as their ability to control and dominate non-land transactions. In other words, the greater the degree of inequality in a society—owing to distributional conflicts—the greater is the likelihood of dysfunctional institutions.

Finally, another reason why dysfunctional institutions persist in various guises has to do with the relationship between collective action and distributional conflicts. In comparisons of macroeconomic performance from East Asian countries, it has been noted that the reason why East Asian countries were able to develop economically had to do with the relatively equitable nature of asset distribution, particularly due to land reform, expansion of education and basic health services since having a relatively equitable distribution of resources makes it

easier to enlist the support of various social groups and thus find a solution to problems of “free riding.”

## Section II

In this section, I will first develop a “holistic” understanding of the Glorious Revolution in Britain 1688-89. I will use the critical institutionalist method (Tauheed, 2013) to argue that it is impossible to theorize about the Glorious Revolution without recognizing the interplay between resource structure, culture and agency.

As opposed to NIE, which relies on methodological individualism as its ontological commitment, critical institutional analysis relies on methodological holism. Using methodological holism as an ontological foundation enables critical institutionalist analysis to incorporate the interplay of resource structure, culture and human agency. In Tauheed’s own words, then:

As opposed to methodological individualism there are no “individual” “free agents”... [n]either is there disembodied ...structure acting on its own, per methodological collectivism. What is important to understand is that there is interaction between ...structure and agency out of that interaction emerges social action... (p.10

Tauheed (2013) builds a usable definition of culture as culture includes “...technology (“tools and skills”) and its “symbols, stories, rituals and world-views,” all developed from collective experience in past problem solving” (p.7; parentheses and quotes in original). At the same time, resource structure (r-structure, hereafter) is defined as “...the distribution of resources to agents as an outcome of past social action (Tauheed, 2013, p.7).” The idea here is that with a definition of r-structure, we want to capture the actual distribution of resources that is available to various agents at a given time.

Tauheed defines agency as “...the degree of awareness people have of their power to interact with and to re-make their social environment to suit their needs” (p.7). Agency is a “psychological construct” that concerns people’s “beliefs” about their capabilities and thus the probabilities of success in carrying out their personal agenda. In this sense, agency becomes informed and possible purposive action. In this way, defining agency as purposive human action, critical institutionalism puts the agents back into the calculus behind social action.

### **Critical Institutionalism gets it right**

In section I, I showed that bargaining asymmetries in distributional conflicts leads to the persistence of dysfunctional institutions. By glossing over entrenched distributional conflicts, NIE is unable to provide us with an answer as to why dysfunctional institutions exist. However, by specifically taking resource distribution into consideration, critical institutionalist analysis incorporates entrenched distributional conflicts, in rich as well as in developing countries and thus provides us with an answer to question pertaining to dysfunctional institutions. In this way, critical institutionalism gears towards providing a workable theory of institutional change that can explain why dysfunctional institutions persist and how under certain conditions institutions transform.

Another dimension of the critical institutionalist technique that informs institutional analysis is related to the technique’s concept of agency. As mentioned above, agency within the critical institutionalist technique is informed and purposive action undertaken by agents in order to achieve their objectives as defined within their agendas. One might be tempted to think that the critical institutionalist conception of agency is similar to the “capabilities” approach from Welfare Economics, popularized by Amartya Sen (1999) —the capabilities approach is concerned with assessing the amount of freedom (positive freedom) that

individuals experience in a given situation. However, the critical institutionalist agency goes beyond the agency as conceived by the capabilities approach in that the critical institutionalist agency specifically takes the agent's *beliefs about their abilities* in undertaking purposive action. The incorporation of beliefs in estimating the agent's agency thus takes various psychological constructs the agents possess into account. By evaluating agency through the technique of critical institutionalism, therefore, the positive or negative role of propaganda, religion or myths comes to the fore as agents' agency is often circumscribed within the world-views that the agents hold about their own environments. This concept of circumscribed agency, more often than not, serves as an important explanatory variable for the persistence of dysfunctional institutions or for institutional rupture (revolution) and thus informs institutional analysis by identifying an important variable that prevents agents from rocking the boat, so to speak.

### **Critical Institutional Analysis of the Glorious Revolution**

**R-structure and Culture.** The process of significant change in Britain's r-structure and culture had commenced at least one hundred years—if not earlier—prior to the actual years in which the Glorious Revolution took place. In the following paragraphs, beginning with the Enclosure Movement, I detail some of the changes that had a profound impact on Britain's society in terms of profoundly changing the distribution of resources and culture.

First, since agriculture held a central place in British society of the seventeenth century, distributional changes in agriculture carried a lot of significance. According to O'Gorman (1997), Britain was going through a veritable revolution in agriculture from the early years of seventeenth century onwards. As a result, ...[h]arvests were good...[b]y the end of the century England was feeding herself comfortably and had even begun to export grain" (O'Gorman, 1997, pp.20–21). Though few statistical records exist from that era, research of

wills and probates shows that all over Britain there was increased wealth, improvement in machinery as well as a willingness to invest in newer techniques for increasing agricultural yields (O’Gorman, 1997).

Enclosures also had a significant impact in aiding the expansion of agricultural production in Britain. Enclosures had been proceeding for centuries, O’ Gorman points out that by 1660 only 50 percent of the English farm land needed to be enclosed (1997). The rationale behind enclosure was clear from the perspective of landowners. Unenclosed land was uneconomic and its haphazard distribution in the shape of immense open fields made it rather difficult to carry out experiments in crop rotation as well as in animal breeding (O’ Gorman, 1997). Enclosures constituted a major social upheaval in British society by pushing hundreds of thousands of indigent masses towards the cities (Polanyi, 1944). However, where the forced exodus of people towards the major British cities constituted an upheaval, it was pivotal in turning British cities into major industrial centers (Coward, 1994) as well as providing the necessary fillip to agriculture as these large urban populations now had to be fed.<sup>4</sup>

Second, where changes in agricultural productivity were changing the r-structure in Britain, simultaneous development in international trade were creating a new “trader” class that came to play a crucial role in the transformation of Britain as this trader class gained political clout — in the shape of the Whigs. According to the data provided by O’ Gorman, British exports roughly doubled between 1640 and 1700. One of the reasons why British exports doubled during this time has to do with the availability of new protected markets, especially in North America. At the same time, the introduction of new textile products, both for the domestic as well as the international market ensured continued economic growth. It

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<sup>4</sup> At a micro level, reasons behind the increase in agricultural yields had to do with the rapidly increasing urban populations in Britain that needed to be fed. At the same time, improvements in animal feeding, vastly improved and intensive methods of crop growing—communicated and popularized by the Royal Society—aided in increasing agricultural yields.

can be assumed that the more international trade grew the more politically significant the Whigs became.

In terms of culture, the role of technology increased in exponential terms in the years prior to the Glorious Revolution. Here, I am obviously taking a partial-Veblenian approach to culture by focusing only on the technological system. One example of the exponential increase in technology can be gleaned by the amount of deadweight tonnage (DWT) that was being carried by British merchant marine fleet. By 1688, Britain had the largest merchant marine fleet in the world, with a carrying capacity of 3.4 million tons in 1686, up from 2 million tons in 1660.<sup>5</sup> It goes without saying that increase in the ability to carry more DWT could not have come about without significant technological leaps.

This exponential increase in the use of technology is also evidenced by the rising amount of coal output in Britain. Though actual numbers are not available, Coward (1994) has shown through anecdotal evidence that most of the biggest coalfields in Britain started being utilized in the beginning of the seventeenth century. Rising coal usage was directly linked with the expansion of smelting of lead, copper and tin. This initial expansion of the metal smelting fueled by coal laid the eventual foundation of the development of the metal industry in Britain.

In order to build upon a critical institutionalist conception of agency, it is important to focus and identify the actual agents who carry out the action for "... [b]oth critical realists and institutionalists would affirm the statement that there are no social outcomes (reproduction or transformation), except through the actions of people (Tauheed, 2013, p.13). In other words, the critical institutionalist method remains incomplete without the identification of the agents.

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<sup>5</sup> For comparison, carrying capacity of British Merchant Navy in 2005 was 9.6 million tons.

**Agency.** By the time of the Glorious Revolution, the political faction dominated by “Whigs” was on the ascent. Indeed, the immediate period after the Glorious Revolution is sometimes referred to as the golden age of Whig ideas in Britain. In the critical institutionalist analysis of the Glorious Revolution presented in this paper, therefore, Whigs are the agents who actually carried out the institutional changes that came to be associated with the Glorious Revolution. Since agents act according to their agendas, the specific agenda of the Whigs can be characterized by their stance on three main issues: monarchy, religion and economy.

Whigs developed their views on monarchy in opposition to the traditional conception about monarchy in Britain. Whigs, for instance, rejected the argument for monarchy’s “divine right” and “hereditary succession.” In a sense, Whigs believed and argued for a limited and constitutional monarchy that could *not* extract excessive surpluses from the economy, at will. This desire to control the fiscal excesses of the monarch was manifested in the firm Whig belief that the Parliament must have supremacy over monarchy, especially in relation to royal expenditure and in the ability to generate new taxes.

The Whig position on religion can be summarized as one based on selective tolerance. As opposed to their political opponents, the Tories, Whigs were willing to show more toleration for those groups that had formally separated from the Church of England. These groups came to be collectively known as the “English Dissenters.” Rather ironically, however, Whigs were opposed to having Catholics in any position of power in Britain.

The Whigs, in essence, were the very physical embodiment of Classical Liberalism. Whigs believed in maximal personal, political and social liberty. As a natural extension, leading Whigs were in favor of *laissez-faire* and free trade.<sup>6</sup> John Locke was a quintessential Whig. As a matter of fact, Locke waited to publish his work (1690) until the dust had settled

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<sup>6</sup> As a matter of fact, some intellectuals have argued that Adam Smith was a Whig, as well (Opitz, 1976).

after the Glorious Revolution and property rights had carried the day. Locke is perhaps the most important intellectual for modern capitalism as he provided a justification for Anglo-Saxon style of property rights.<sup>7</sup> Increasingly, Whigs came to be associated with the emerging industrial interests (metals, commerce etc.) and wealthy merchants (international trade) as where the former were leery of absolute monarchical powers, the latter preferred *laissez-faire* with taxes at a minimum, if any.

### Conclusion

This paper began by critically examining the relative merits of two techniques of institutional analysis, namely NIE and critical institutionalist technique. In the first section of the paper, I evaluated how NIE institutional analysis proceeds, by focusing on the way NIE has dealt with the Glorious Revolution, a seminal event in British history. NIE, I argued, suffers from a number of weaknesses. For instance, the “cookie-cutter” approach employed by NIE scholars in only promoting secure property rights is reductive, at best, and Western-centric, at worst. Moreover, I pointed out that there is no theory of institutional change within NIE. As a result, NIE is unable to account for the lack of global convergence towards Anglo-Saxon-style institutions as well as for the persistence of dysfunctional institutions, especially in developing countries.

In the second section of this paper, I first detailed the critical institutionalist technique for institutional analysis. I pointed out that it was the changing nature of resource distribution—over hundreds of years— in Britain (agriculture, trade, commerce) that enabled the Whigs to bring about the actual events of the Glorious Revolution. I showed that by specifically factoring in actual distribution of resources, the critical institutionalist method is

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<sup>7</sup> Locke argued that initially the earth was given to everyone equally. However, those who worked hard and invested their labor with the land became owners of property, while others through their laziness lost whatever little was given to them in the first place. This has come to be known as the labor theory of ownership.

superior to NIE for providing a workable theory of institutional change and for explaining the persistence of dysfunctional institutions, especially in developing countries that suffer from systemic distributional conflicts.

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